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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

4 May 1984

Japan: Synopsis of Trade and Financial Measures

The trade package announced last month was largely a recapitulation of recent economic measures, such as agricultural import quota increases. Specifics on tariff cuts were confidentially passed to the Embassy, but the vague statements on satellites, lawyers, energy, and import and investment promotion indicate the need for continued scrutiny by Japan's trade partners. [redacted] 25X1

The Japanese Government is moving toward gradual liberalization of the domestic financial system, including deregulation of interest rates, and has pledged to internationalize the yen as progress is made on liberalization. There is opposition to liberalization from weak financial institutions, and the Ministry of Finance will move slowly to avoid disrupting the system. Pressures for liberalization of the system will mount as large amounts of government debt approach maturity over the next several years. [redacted] 25X1

This memorandum was prepared by the Office of East Asian Analysis in support of Vice President Bush's Asian trip. [redacted] 25X1

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SUBJECT: Japan: Snyopsis of Trade and Financial Measures

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1 - C/EA/[redacted] 25X1
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1 - Donald Gregg, Office of the Vice President

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TRADE ISSUES

Issue	Status	Comment
Tariffs	Tokyo promised cuts on 71 new items on 27 April in addition to more than 1,200 reductions announced in the fall. All cuts become effective 1 April 1985. Forestry products, wine and paper were not included, but Tokyo has promised to work for wine and paper reductions by next April.	Cuts were made over strong opposition of agriculture sector, already upset by the beef and citrus agreement. Tokyo probably will not be able to make further reductions on items which arouse exceptionally strong opposition, such as forestry products.
Satellite Purchases	"Way to be paved" for private, government and NTT purchase of foreign communications satellites.	In order to protect the current domestic satellite program, Tokyo is unlikely to permit foreign satellite purchases before 1987-88. When NTT returns to the private sector, it will be able to make its own decisions, but the breakup will take several years. The space program remains a point of national pride. Tokyo--committed to domestic satellite development-- will not actively encourage foreign satellite purchases unless strongly pressured.
Value Added Networks (VANs)	VAN legislation currently in the Diet does not include foreign investment restrictions but has a de facto licensing system for large-scale VANs. Operating ordinances are yet to be written. Tokyo has agreed to consult Washington before promulgating them.	The interministerial struggle for control of the telecommunications service market is continuing. Tokyo believes it made significant concessions from the original regulations. The market is potentially open, but Tokyo has retained the ability to regulate both entry and operations.
Software	MITI's software protection bill will not reach the Diet this year. The trade package promised consideration of international standards for software protection.	MITI probably has not totally given up on efforts to protect software, but any legislation is likely to remain tied up by interministry conflicts. Tokyo seems responsive to pressure on this issue.
Import Promotion & Standards	Tokyo has again promised measures to increase transparency and ease restrictions. To date the Japanese have done little to follow through.	Many structural and attitudinal barriers exist, and real progress will take several years.

Lawyers	Tokyo has stated it will work toward a solution. The Japanese bar associations have not concluded deliberations on whether foreign lawyers should be allowed to practice in Japan.	Japanese lawyers strongly oppose allowing entry of foreign attorneys. Because the legal profession is self-regulating, agreement of the bar associations is essential. The associations recognize the problem posed by the increase in international litigation but would rather solve it by training more Japanese lawyers.
Energy	The trade package renewed the pledge for cooperation made last November.	For the near future, there is not much hope for increased US energy exports. Cost being the major concern to Japanese energy consumers, they will resist calls to buy more high-priced US coal. MITI will use the May visit of a coal delegation and the promotion of slurry and LNG feasibility studies to divert US pressure for purchase commitments.
Agriculture and Tobacco	Agreements on beef, citrus, and 13 other agricultural quotas have been signed. The bill to partially dismantle the tobacco salt monopoly and allow more tobacco imports is now in the Diet.	Compromises were reached despite considerable opposition by the farm bloc. This will increase reluctance to make further concessions, but Nakasone may be able to effect further progress by buying off specific interest groups.

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Based on information available as of 3 May 1984.

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FINANCIAL ISSUES

Issue*	Status	Comment
Create free Euroyen markets, permitting unrestricted yen transactions outside of Japan.	At present, only short-term Euroyen loans to non-residents are completely liberalized. Japanese corporations, foreign governments and international organizations with good credit ratings have limited access to Euroyen bond markets. According to press reports, this summer a Euroyen certificate of deposit market will be created, and some foreign companies will gain access to Euroyen bond markets.	Future measures are likely to be carefully crafted to limit the attractiveness of Euroyen markets because Japanese officials fear that growth of these markets will threaten monetary policy control and may lead to unregulated risk taking by banks. Borrowers on Euroyen markets, for example, will be prohibited from sending proceeds back to Japan for a specified time period.
Provide foreigners--whether acting as borrowers, investors or intermediaries--with equal access to Japanese capital markets.	A 1980 law accorded foreign banks full national treatment but their yen funding base remains inadequate. Other problem areas include: a limited number of seats on the Tokyo Stock Exchange--giving Japanese securities firms a de facto monopoly--and fairly stiff requirements for public flotation of yen bonds by foreigners in Japan.	To improve foreign bank funding, the Finance Ministry is likely to abolish limits on how much foreign currency can be converted into yen. More importantly, to aid recycling of record current account surpluses, Japanese officials are easing eligibility requirements for foreigners' yen loans and bonds. They are also studying ways to expand access to the stock exchange.
Liberalize the domestic capital market by removing interest rate regulations, expanding the variety of financial instruments, and ending the segmentation of financial markets.	The Finance Ministry has gradually expanded the number of assets with market-determined interest rates in the last decade and has outlined a six-step plan for complete liberalization over the next few years. Serious consideration is also being given to setting up yen bankers' acceptance and treasury bill markets. Barriers separating banking and securities activities are also falling for transactions involving government bond issues.	Press play surrounding the yen-dollar working group talks has convinced Japanese financiers that domestic liberalization is inevitable. To put themselves in a competitive position for the future freer financial environment, they are requesting--with increasing urgency and frequency--that the Finance Ministry permit them to expand the assets and services they offer. The Ministry has responded positively to most requests and, in the process, the pace of domestic liberalization has quickened. Bureaucrats are, nonetheless, leery of any further acceleration.
Remove controls on direct investment in Japan.	This year the Diet is expected to approve laws ending restrictions on foreign investment in 11 designated companies and in Japanese real estate.	The government is currently investigating ways to deal with the remaining area of concern--the transparency of regulations governing direct investment.

* Issues as articulated by Treasury Secretary Regan in late March.

Information as of 3 May 1984.

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